

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 STR-02 STRE-00 INR-05 CIAE-00

NSAE-00 NSC-05 SP-02 L-01 EUR-08 TRSE-00 OMB-01

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P 111654Z NOV 77

FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 2968

INFO ALL EC CAPITALS

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USMTN

USEEC

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PASS STR ELECTRICALLY FOR AMBASSADORS STRAUSS AND WOLFF

E.O. 11652: N/A

TAGS: ETRD MTN

SUBJECT: REFLECTIONS ON STEEL

1. THE POINTS MADE BY VISCOUNT DAVIGNON IN THE MEETING ON TUESDAY IN WASHINGTON WITH UNDER SECRETARY SOLOMON WERE EMPHASIZED AGAIN FROM BOTH PRIVATE AND PUBLIC SOURCES DURING MY VISIT TO BRUSSELS ON WEDNESDAY AND TO PARIS ON WEDNESDAY EVENING AND THURSDAY. ALTHOUGH ALL OF THE EUROPEANS ARE WORRIED ABOUT THE OUTCOME, THE FRENCH ARE PARTICULARLY CONCERNED ABOUT WHAT THE U.S. DOES IN STEEL SINCE THAT INDUSTRY AND TEXTILES ARE THE TWO MAIN ONES IN THEIR NORTHERN REGIONS. THEY WORRY

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THAT DRAMATIC NEGATIVE MOVES IN EITHER ONE, AND CERTAINLY IF THEY WOULD OCCUR IN BOTH, WOULD HAVE DIRE CONSEQUENCES POLITICALLY FOR FRANCE.

2. HERE ARE SOME SUGGESTIONS THAT MIGHT BE CONSIDERED:

A. ANY SOLUTION PROPOSED BY THE SOLOMON COMMITTEE

MIGHT BE CONSIDERED TEMPORARY COVERING A PERIOD UP THROUGH NEXT JUNE OR THROUGH 1978 AT THE LATEST. SHORT TERM, EMERGENCY ACTIONS CAN BE UNDERSTOOD; BUT THE IDEA THAT THE UNITED STATES WOULD ATTEMPT UNILATERALLY TO DETERMINE A PERMANENT SOLUTION FOR A WORLD-WIDE PROBLEM WOULD BE UNACCEPTABLE AND WOULD BE WIDELY DENOUNCED, THUS ENDANGERING SOME OF OUR OTHER ECONOMIC OBJECTIVES WITH KEY TRADING PARTNERS.

B. RECOGNIZING THE WORLD-WIDE SCOPE OF THE STEEL PROBLEM, THE REPORT HOPEFULLY WILL SUPPLEMENT ITS TEMPORARY ACTIONS WITH A CALL FOR A MULTILATERAL APPROACH TO THE DEVELOPMENT OF A LONGER TERM PLAN IN CONJUNCTION WITH OTHER MAJOR STEEL PRODUCERS AND IMPORTERS INTO THE U.S. THE FORUMS THAT MIGHT BE CONSIDERED FOR THIS EXERCISE COULD WELL BE THE OECD IN PURSUING ITS PRESENT COURSE, THE MTN FOR A GENERAL OR STEEL SECTOR DISCUSSION OR A COMBINATION OF BOTH PLUS ANY OTHERS THAT SEEM REASONABLE. THE ESSENTIAL THEME IS THE RECOGNITION OF THE NEED TO DEVELOP AN ACCEPTABLE MULTILATERAL APPROACH THAT, ALTHOUGH NOT IDEAL DURING THE RESTRUCTURATION PROCESS FOR ANYONE, WOULD BE TOLERABLE FOR ALL AND CLEARLY REFLECTS A SOLUTION WORKED OUT WITH FULL PARTICIPATION OF OTHER KEY INTERESTED COUNTRIES WITHOUT ANY IMPLICATION OF UNILATERAL IMPOSITION.

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C. IF A REFERENCE PRICE IS USED, THIS SHOULD BE DEVELOPED AFTER CONSULTATION WITH ALL MAJOR STEEL IMPORTERS. THEREFORE, REGARDLESS OF THE ORIGINS OF THE INFORMATION FINALLY CHOSEN, THE REFERENCE PRICE BECOMES AN INTERNATIONALLY ACCEPTED LEVEL OF MINIMUM WORLD COSTS TO SERVE AS A BASIS FOR DETERMINING DUMPING. TO CITE AS A PRESENTATIONAL FORM THE COSTS OF ANY ONE COUNTRY WOULD ONLY HAVE NEGATIVE REACTIONS ELSEWHERE SINCE UNDOUBTEDLY INDIVIDUAL COST COMPONENTS VARY BY PRODUCT AND COUNTRY, THUS CALLING FOR THE PRESENTATION OF AN ACCEPTABLE, ANONYMOUS "COMPOSITE" AS THE END PRODUCT.

D. IF THE MARGIN DIFFERENTIAL BETWEEN NORMAL U.S. PRICING AND THE REFERENCE PRICE BASE FOR PRIMA FACIE EVIDENCE OF DUMPING IS LESS THAN ABOUT TEN PERCENT, THIS WILL EFFECTIVELY CUT OFF U.S. STEEL IMPORTS FROM EUROPE, ACCORDING TO OBSERVERS HERE, WHO CONTEND THAT ABOUT THAT LEVEL OF PRICE CONCESSION IS NEEDED TO MAKE IMPORTS ECONOMICALLY ATTRACTIVE. A SHUT-OFF OF EUROPEAN IMPORTS, OR EVEN A SUDDEN SHIFT TO A POINT BELOW THEIR TRADITIONAL SHARES WOULD HAVE A DRAMATIC, NEGATIVE IMPACT IN EUROPE.

CONSEQUENTLY, A MOVEMENT THAT WOULD PERMIT A RETURN TO
RELATIVELY NORMAL MARKET PENETRATION LEVELS AT REALISTIC
PRICES WOULD APPEAR TO BE THE APPROPRIATE AIM, THUS
PROVIDING ESSENTIAL RELIEF FOR THE U.S. MARKET FROM ACTUAL
DUMPING AND FROM CYCLICAL INCREASES IN MARKET SHARE OF
EXCESSIVE PROPORTIONS WHILE REPRESENTING A MODERATE
RESPONSE TO IMPORTERS WHOSE ECONOMIC SITUATIONS ARE

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ALSO PRECARIOUS.

E. ALTHOUGH RECOGNIZING THIS ISSUE IS AN EXTREMELY
DELICATE ONE POLITICALLY WITHIN THE U.S., IT IS CLEAR
THAT STEEL HAS EQUAL OR GREATER SENSITIVITY IN OTHER
MAJOR INDUSTRIAL COUNTRIES AS WELL, AND THE MANNER IN
WHICH THE U.S. HANDLES AND PRESENTS ITS RESPONSES WILL
BE JUDGED ALMOST AS CRITICALLY AS THE VALIDITY AND
EQUITY OF THE SOLUTION ITSELF. MCDONALD

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